



Q. *Do I need to inform the Deferred Compensation Office that I am retiring? Where can I get distribution information?*

A. While you do not have a specific election period, please inform the Deferred Compensation Office of your pending retirement for our records. A brief introduction to distribution is found in this newsletter on page three. The distribution information has been updated and can be obtained by going online to the Deferred Compensation Office homepage at www.state.il.us/cms/employee/defcom or by calling the Deferred Compensation Office at 217-782-7006, 800-442-1300, or TDD/TTY at 800-526-0844.

Q. *What happens to my account when I leave state service?*

A. After you separate from state service, you may no longer defer or make contributions to your account. However, as long as you have an account balance, you will continue to earn interest and/or dividends and receive quarterly statements. In addition, you may move money from one investment option to another in your account. To make a transaction, call T. Rowe Price at 888-457-5770 or TDD/TTY at 800-521-0325 anytime, 24 hours a day, seven days a week. To speak to a representative, call Monday through Friday between 7:30 a.m. and 9 p.m. (central time). You may also use your computer to make exchanges or check account information by logging in to rps.troweprice.com.

ERI and Deferred Compensation

The Early Retirement Incentive (ERI) was passed by the General Assembly and signed by the governor on June 25, 2002. Although the ERI affects only SERS members, this newsletter addresses the many issues and questions received as a result of the legislation.

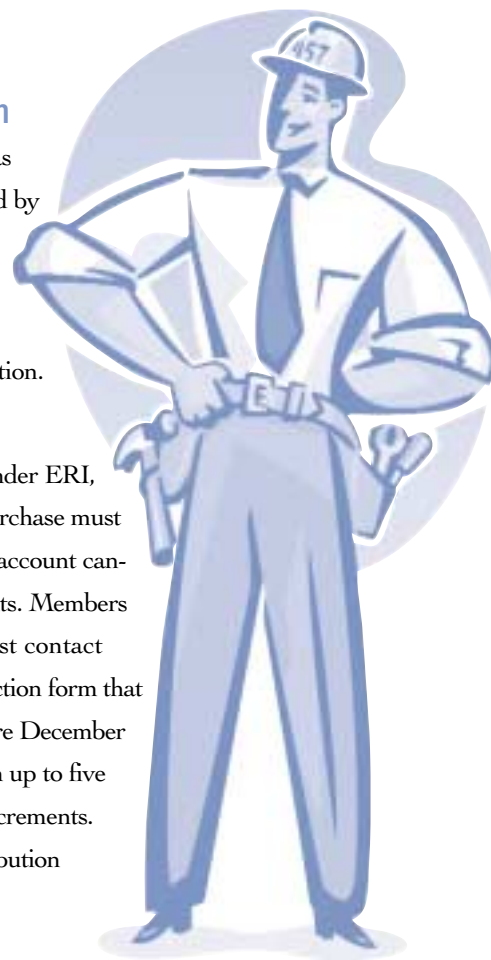
Retiring Under ERI

For those who qualify and plan to retire under ERI, the law is very specific on how the ERI purchase must occur. Your Deferred Compensation Plan account cannot be used to purchase those service credits. Members who are eligible under the legislation must contact SERS and request a service purchase election form that must then be received by SERS on or before December 31, 2002. Members of SERS may establish up to five years of creditable service in one-month increments. SERS will determine your required contribution amount upon application.

Lump-Sum Deferrals

Any participant will be able to defer amounts into the Deferred Compensation Plan from their lump-sum deferral amount. All required contribution amounts to the ERI are deducted from the net lump-sum payment. This means that your requested deferral amount will be deducted prior to the deduction for the ERI contribution due. Any amounts contributed to the Deferred Compensation Plan remain subject to the IRS maximum deferral amount for a given year. During 2002, the maximum is \$11,000 or 100% of includable compensation, whichever is less. The maximum for the 2003 tax year is the lesser of \$12,000 or 100% of includable compensation. For members of SERS, the December 16 through 31 pay period will begin the new tax year. Please work closely with your payroll officer to ensure a correct deferral amount and timely submission of the forms. All change forms must be received by this office the month prior to the expected change in deferral amount.

If you do not have enough of a lump-sum payment after the net deduction to cover your required ERI contribution, your remaining contribution will be deducted from your pension payment on a pretax basis in 24 interest-free installments.



Purchasing Service Credits

With the exception of an ERI service purchase, participants have the option of purchasing permissive service credits. This may include a new employee probationary period, military time, previous service credits that were cashed out, or service credits with a reciprocal retirement system.

In order to purchase this time, a participant must obtain a cost estimate from the appropriate retirement system, complete a Permissive Service Authorization Form from the Deferred Compensation Office, and submit both forms to the office a month prior to the intended purchase of service credits. In order for the purchase to occur, a participant must have a large enough account balance to cover the cost of the purchase. If the account is less than the required purchase amount, the purchase will be cancelled using deferred compensation money.



Catch-Up

There are now two provisions of catch-up to consider: age 50 and regular catch-up.

The age 50 catch-up is available to any participant age 50 or older. There is no application or approval process to be able to defer the additional amount. The maximum additional age 50 catch-up amount is \$1,000 for tax year 2002 and \$2,000 for tax year 2003. Therefore, an employee who is at least 50 years old may defer \$12,000 for the tax year 2002 and \$14,000 for 2003.

A participant must sign up for the regular catch-up provision through an application process with the Deferred Compensation Office. This is to ensure compliance with federal guidelines. First, the participant must have underutilized deferrals from previous years to “catch up.” Second, the earliest a participant can utilize the regular catch-up is three tax years prior to the year they become eligible to retire with “unreduced” pension benefits from their retirement system. Please contact the Deferred Compensation Office if you have any questions regarding catch-up.

Telephone Numbers

Deferred Compensation:

Plan Rules/Options Information
800.442.1300
217.782.7006
TDD/TTY: 800.526.0844
Internet: www.state.il.us/cms/employee/defcom

Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value
Information and Investment Changes: 888.457.5770
TDD/TTY: 800.521.0325
Internet Access: 800.541.3022
Internet: rps.troweprice.com

Fund Performance:

Liberty Acorn Fund: 800.922.6769
Ariel Fund: 800.292.7435
Fidelity Funds: 800.544.8888
Provident Investment Counsel: 800.618.7643
Stable Return Fund/PRIMCO: 800.572.3819
T. Rowe Price Funds: 800.922.9945
Vanguard Funds: 800.523.8066
Wells Fargo: 866.561.1153

Distributions

Deferred Compensation Plan participants have enjoyed the benefit of sweeping changes in the distribution rules for government 457 plans. Two major restrictions were repealed, which now allows governmental 457 plans to have flexibility in distribution elections and increased flexibility for participants in distribution status. Participants separating from service no longer have an irrevocable beginning date for distributions within a restrictive time frame.

Simply contact the Deferred Compensation Office when you are ready to select a distribution of your account. Participants receiving a distribution have the ability to start/stop their distributions at will or elect to increase/decrease their payment after commencement. This may be done once every semi-annual period (January through June and July through December). The age 70½ minimum required distributions are still imposed. Any retiree reaching age 70½ must begin receiving distribution payments at least as quickly as IRS life expectancy tables. Proposed regulations caused a revision of the life expectancy tables at the beginning of tax year 2002. Final regulations were recently released that will allow for an extended/reduced payment based on an even longer life expectancy beginning in 2003.

When eligible for a distribution, EGTRRA allows for the portability or the transfer of IRC Section 457 plan assets between other retirement savings plans such as a 401(k), 403(b), or an individual retirement account (IRA). Likewise, other plan assets may be eligible to be transferred into governmental 457 plans. The provision allows employees to transfer money into a new employer's retirement plan when changing jobs and consolidate assets when leaving the workforce. The assets transferred into another plan will take on the characteristics of the receiving plan, except those assets transferred into a 457 plan. Section 457 money transferred to an IRA may have the age 59½ restriction or 10% penalty for early withdrawal applied. Assets transferred into a 457 plan

must retain the characteristics of the plan from which they were transferred.

With the distribution restrictions lifted from governmental 457 plans, there may not be an immediate benefit to rolling over assets into another plan other than to consolidate assets. When considering IRA rollovers, participants should determine any potential loads, commissions, and fees charged.

Your distribution choices	How it works
Total Lump Sum	A complete, one-time distribution of the total value of your account.
Partial Lump Sum	A single payment that can be followed by installments, or you can wait to resume any other payments.
Installments	<p>The installment amounts may vary. Payments can be made monthly, quarterly, semiannually, or annually.</p> <p>You can choose a definite number of years you want to receive payments or a recalculation of your life expectancy annually to allow payments that would extend beyond your life expectancy at the time you separate state service.</p>
Fixed Dollar Installments	You decide the amount of each installment payment, which stays constant. Payments can be made monthly, quarterly, semiannually, or annually.
Plan-to-Plan Rollovers	You may move your retirement plan assets between retirement plans in the public, private, education, and nonprofit sectors as you move between employment in those sectors. Monies may be moved between (to and from) 401, 403(b), and governmental 457 plans as well as Traditional IRAs.

Income and Price Information

2nd Quarter 2002

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income ¹	Fidelity Puritan ²	Fidelity ³	Vanguard Inst. Index ⁴	Wells Fargo Lg. Co. Growth	Liberty Acorn	Ariel	T. Rowe Price Int'l Stock	PIC Small Cap Growth
04/01/02	\$9.99	\$8.57	\$17.90	\$28.35	\$104.78	\$48.06	\$18.73	\$40.47	\$11.20	14.85
04/02/02	10.03	8.59	17.89	28.16	103.89	47.27	18.58	40.55	11.17	14.54
04/03/02	10.06	8.62	17.81	27.92	102.87	46.79	18.44	40.38	11.19	14.37
04/04/02	10.06	8.61	17.81	27.97	102.96	46.87	18.54	40.58	11.07	14.36
04/05/02	10.08	8.64	17.84	27.91	102.63	46.67	18.64	40.71	11.09	14.28
04/08/02	10.07	8.62	17.87	27.98	102.89	47.12	18.77	41.03	10.91	14.40
04/09/02	10.09	8.63	17.82	27.80	102.21	46.58	18.79	41.18	10.94	14.27
04/10/02	10.08	8.63	17.94	28.11	103.37	47.28	18.94	41.49	10.99	14.38
04/11/02	10.09	8.64	17.69	27.51	100.93	45.93	18.64	41.24	10.87	14.11
04/12/02	10.10	8.65	17.74	27.63	101.60	46.66	18.88	41.82	10.88	14.36
04/15/02	10.11	8.66	17.69	27.48	100.82	46.40	18.80	41.49	10.98	14.38
04/16/02	10.09	8.65	17.92	28.06	103.18	47.30	19.13	41.88	11.20	14.78
04/17/02	10.09	8.64	17.93	27.94	102.98	46.94	19.07	41.45	11.31	14.74
04/18/02	10.10	8.66	17.90	27.88	102.83	46.47	19.11	41.48	11.27	14.78
04/19/02	10.11	8.66	17.90	27.86	102.90	46.55	19.05	41.55	11.25	14.73
04/22/02	10.11	8.66	17.76	27.49	101.31	45.75	18.88	41.25	11.19	14.47
04/23/02	10.10	8.66	17.73	27.36	100.69	45.04	18.92	41.40	11.18	14.32
04/24/02	10.13	8.69	17.67	27.14	99.97	44.72	18.85	41.32	11.14	14.23
04/25/02	10.13	8.68	17.64	27.15	99.82	44.89	18.82	41.49	11.11	14.18
04/26/02	10.14	8.69	17.55	26.84	98.44	43.99	18.60	41.14	11.07	13.85
04/29/02	10.12	8.67	17.42	26.60	97.45	43.74	18.48	41.06	11.04	13.68
04/30/02	10.12	8.67	17.54	26.80	98.50	44.38	18.73	41.50	11.05	13.99
05/01/02	10.13	8.68	17.65	27.16	99.38	44.57	18.75	41.90	11.09	13.98
05/02/02	10.11	8.66	17.70	27.17	99.22	44.19	18.79	42.07	11.06	13.91
05/03/02	10.13	8.68	17.66	26.89	98.20	43.35	18.74	42.11	11.07	13.80
05/06/02	10.12	8.67	17.46	26.38	96.31	42.43	18.47	41.75	11.04	13.55
05/07/02	10.13	8.67	17.45	26.30	96.02	42.47	18.31	41.69	10.92	13.39
05/08/02	10.07	8.63	17.69	27.14	99.63	44.77	18.61	42.08	11.09	14.02
05/09/02	10.09	8.64	17.59	26.80	98.20	43.90	18.43	41.70	11.09	13.69
05/10/02	10.11	8.66	17.46	26.44	96.55	42.91	18.19	41.65	10.98	13.48
05/13/02	10.07	8.63	17.64	26.88	98.36	43.73	18.42	42.05	11.03	13.71
05/14/02	10.03	8.60	17.82	27.41	100.44	45.17	18.79	42.52	11.12	14.10
05/15/02	10.05	8.61	17.79	27.26	99.90	45.24	18.85	42.52	11.23	14.09
05/16/02	10.08	8.63	17.87	27.44	100.56	45.42	18.71	42.33	11.25	13.96
05/17/02	10.05	8.61	17.89	27.64	101.35	46.03	18.74	42.49	11.32	13.99
05/20/02	10.08	8.63	17.79	27.34	100.00	45.11	18.57	42.19	11.28	13.76
05/21/02	10.10	8.65	17.71	27.04	98.91	44.15	18.30	41.76	11.24	13.52
05/22/02	10.12	8.67	17.77	27.13	99.47	44.13	18.25	41.80	11.20	13.46
05/23/02	10.10	8.65	17.86	27.33	100.50	44.61	18.46	42.14	11.17	13.67
05/24/02	10.10	8.66	17.75	27.03	99.27	43.95	18.32	42.00	11.14	13.47
05/28/02	10.11	8.66	17.68	26.84	98.43	43.51	18.23	41.74	11.12	13.43
05/29/02	10.14	8.69	17.66	26.73	97.81	43.12	18.14	41.69	11.10	13.28
05/30/02	10.15	8.70	17.60	26.64	97.54	43.03	18.13	41.61	11.00	13.21
05/31/02	10.15	8.70	17.66	26.70	97.77	43.03	18.17	41.83	11.04	13.25
06/03/02	10.15	8.70	17.42	26.12	95.35	41.88	17.83	41.41	11.02	12.87
06/04/02	10.16	8.70	17.37	26.09	95.35	41.99	17.76	41.17	10.84	12.83
06/05/02	10.14	8.69	17.46	26.32	96.23	42.69	17.85	41.31	10.77	12.92
06/06/02	10.15	8.71	17.28	25.88	94.33	42.06	17.59	40.80	10.79	12.69
06/07/02	10.13	8.68	17.14	25.91	94.18	41.83	17.67	41.06	10.65	12.73
06/10/02	10.13	8.69	17.17	26.00	94.48	42.06	17.68	41.04	10.67	12.76
06/11/02	10.15	8.70	17.02	25.57	92.90	41.22	17.47	40.75	10.75	12.51
06/12/02	10.17	8.71	17.06	25.77	93.53	41.61	17.38	40.30	10.57	12.47
06/13/02	10.18	8.73	16.96	25.53	92.55	40.87	17.17	39.88	10.42	12.36
06/14/02	10.22	8.75	16.94	25.50	92.34	40.96	17.22	40.01	10.21	12.41
06/17/02	10.19	8.73	17.24	26.18	94.99	42.36	17.61	40.62	10.47	12.75
06/18/02	10.20	8.74	17.28	26.21	95.09	42.17	17.55	40.52	10.47	12.70
06/19/02	10.23	8.77	17.14	25.83	93.52	41.50	17.37	39.85	10.33	12.54
06/20/02	10.19	8.74	16.98	25.51	92.26	40.83	17.24	39.80	10.25	12.28
06/21/02	10.21	8.76	16.86	25.05	90.37	39.72	17.20	39.83	10.24	12.17
06/24/02	10.17	8.74	16.84	25.11	90.70	40.11	17.11	39.41	10.12	12.17
06/25/02	10.17	8.73	16.71	24.69	89.18	39.22	16.99	38.95	10.24	11.97
06/26/02	10.19	8.73	16.61	24.66	88.99	39.42	16.89	38.92	10.14	11.96
06/27/02	10.14	8.69	16.75	25.06	90.56	40.16	17.08	39.02	10.29	12.19
06/28/02	10.13	8.69	16.82	25.03	90.48	40.21	17.26	39.16	10.58	12.39

¹New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 30 days were credited for April, 33 days were credited for May, and 28 days were credited for June.

²Puritan declared a distribution of \$.12 payable June 7, 2002, to shareholders of record on June 6, 2002, using a share value of \$17.14.

³Fidelity declared a distribution of \$.05 payable June 7, 2002, to shareholders of record on June 6, 2002, using a share value of \$25.91.

⁴Vanguard Institutional Index Fund declared a distribution of \$.32 payable June 21, 2002, to shareholders of record on June 20, 2002, using a share value of \$90.37.